BRITISH COLUMBIA

BC STATS

Ministry of Management Services

Infoline

Contact: bcstats.infoline@gems6.gov.bc.ca | Issue: 04-20 | May 21, 2004

- **Inflation in BC was 1.7% in April, almost double the rate in March**
- **After-tax family income in BC rose 1.7% in 2002**
- **The number of Income Assistance recipients fell 8.7% in March**

Prices

- **British Columbia's consumer price index rose 1.7% in April, compared to the same month last year**. This is almost double the inflation rate in March (0.8%).

  A major factor in April's inflation was higher shelter costs (+2.0%), particularly for fuel & electricity. Transportation prices were also higher in April, mostly due to a large increase in the price of gasoline (+7.0%, compared to a drop of 6.8% in March). Indeed, energy prices (+5.0%) were the source of inflationary pressure in April. After excluding energy, the increase in inflation in April was the same as the month before (+1.3%). *Data source: Statistics Canada*

- **Nationally, inflation (+1.6%) was marginally below the price increases seen in BC**. As with BC, a spike in energy prices was the driving factor. The inflation rate increased in almost all provinces, with the exception of Quebec and New Brunswick. *Data source: Statistics Canada*

The Economy

- **Exports (seasonally adjusted) edged up 0.5% in March, solely on the strength of a 9.1% jump in forest product exports.** Exports of agricultural and fish products (-5.6%), energy (-1.5%), machinery, equipment and automobiles (-5.6%) and industrial and consumer goods (-9.2%) all declined.

  Exports increased 4.7% in the first quarter from the fourth quarter of 2003. Of the major commodity categories, only agricultural and fish exports experienced a decline (-4.6%), likely due to the avian flu outbreak that resulted in poultry export restrictions. *Data source: BC Stats*

Income in BC

- **After-tax family income averaged $60,800 in BC in 2002, an increase of 1.7% (after adjusting for inflation)**. The increase was due to a combination of increased market earnings (income before taxes and transfers) of 0.9%, coupled with a 4.6% reduction in income taxes paid by BC families. Transfer payments to families declined slightly (-1.6%) in 2002, which tempered overall growth in after-tax family income. The 0.9% increase in market earnings was better than the national average, which slipped 0.2%, but was the smallest increase in BC since 1996.

  Across Canada, after-tax family income edged up slightly (+0.3%) to 60,500. For the third year in row, market income was slightly higher at the national level than in BC. However, income taxes in BC are 9% below the national average. This pushed after-tax income in BC above the average for Canada.

  The low-income rate among families in BC rose to 10.0% in 2002, up from 8.2% the year before. The low-income rate among families in BC is now significantly higher than the Canadian average (7.1%). *Data Source: SC, Catalogue no. 75-202-XIE*

  BC families paid $11,700, on average, in income tax in 2002 – an effective tax rate of 17.9%. This is the third lowest effective tax rate in Canada, behind Manitoba (16.9%) and Prince Edward Island (17.1%). The national average was 19.4%. *Data Source: SC, Catalogue no. 75-202-XIE*

- **The tax and transfer system provides a considerable redistribution of income among families in BC**. For the poorest 20% of families, transfer payments from government made up about 46% of their total income, while for the

Report BC's Economy Stays on Course in 2003

Did you know...
Men in Canada are most likely to suffer an injury while playing sports.
Women are most likely to be injured doing household chores.

wealthiest 20%, transfers accounted for only 4% of income. Further, the wealthiest group faced an effective income tax rate of 20.4% of income. The lowest-income group had an effective tax rate of 7.3%. *Data Source: SC, Catalogue no. 75-202-XIE*

- **There were 165,000 people receiving Income Support in March, down 8.7% from the same month last year**. *Data Source: Ministry of Human Resources*

- **Over the last 14 years, there have been enormous changes in the number of Income Support recipients in BC**. In the first half of the 1990s, there was a sharp increase in Income Support, peaking in 1995 at 371,000 recipients. The number of people on income assistance rose from 6.6% of the BC population in 1990 to 9.8% in 1995. Since then, there has been a steady drop in the number of people receiving income assistance, such that, by 2000, recipients made up 6.3% of the BC population—slightly less than in 1990.

  In the first three years of the new century, the number of recipients has fallen another 32%. In 2003, those on Income Support made up 4.2% of the population, the lowest level since the beginning of the 1980s.

  There has also been significant change in who is receiving Income Support. In 1995, 79% of recipients were expected to work. By 2003, "employables" have become a minority (37%). Similarly, those receiving disability benefits have increased from 7% in 1995 to 34% in 2003.
  Data Source: Ministry of Human Resources

- **A survey of people who left the Income Support program in 2003 provides an indication of how well former recipients are faring**. Roughly two-thirds were working at the time of the survey. Their monthly income was $1,550, a little more than twice what they would receive from Income Support.

  The remaining 32% were no longer on Income Support but were also not working. Their income was not reported in the survey.
  Data Source: Ministry of Human Resources

Retail Trade

- **The number of retail stores in BC increased 5.4% between 2001 and 2002 to 26,946, and operating revenues jumped 5.8% to $45.6 billion.** The increase in operating revenues was slightly less than the Canadian average of 6.6%.
  Data source: Statistics Canada

Tourism

- **The volume of visitors entering the country through BC border crossings was up 2.4% (*seasonally adjusted*) in March**. This was the first significant increase since last August. Cross-border trips from the US (+3.6%) were up significantly, both for same-day (+2.1%) and overnight (+4.2%) trips. However, traveller entries from overseas countries dropped 3.2%.
  Data Source: Statistics Canada & BC Stats

The Nation

- **The index of leading economic indicators was up 0.6% in April, the ninth consecutive month above 0.5% growth**. *Data source: Statistics Canada*

- **Canadian direct investment abroad dropped 7.1% in 2003.** This was the first decline in over 50 years. At the same time, foreign direct investment into Canada was up 2.5% last year. Still, Canadians hold $399 billion in direct investment assets abroad, about $42 billion more than foreign investors hold in Canada.

  The major reason for the decline in direct investment abroad is the surge in the value of the Canadian dollar. Assets denominated in US dollars, for example, have come to be worth less in Canadian dollars. Direct investment is deemed to occur when an investor acquires at least 10% of the voting shares of a company, allowing a significant degree of influence over the management of the company.
  Data source: Statistics Canada

- **There is widespread drug and alcohol use among mid-adolescent youths in Canada**. By age 15, 38% of young people have used marijuana, and 13% have used hallucinogenic drugs. Some 44% have drunk alcohol to intoxication. *Data Source: SC, Catalogue no. 82-003-XPE*

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Infoline Report

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Contact: Lillian Hallin (250) 387-0366 Originally published in *Business Indicators*, Issue 04-04. Annual Subscription $60 +GST

BC's economy stays on course in 2003

BC's economy posts steady growth in 2003

British Columbia's economy posted steady growth of 2.2%[1] in 2003, as business investment picked up speed while consumer spending remained robust. Final domestic demand for goods and services (+3.8%) continued to boost the economy, while a burgeoning trade deficit put the brakes on economic growth in 2003.

For the first time since 1996, the province's economy expanded faster than the national average (+1.7%). However, BC was ranked fourth among the provinces in terms of economic growth last year. Newfoundland and Labrador (+6.5%) led the way, followed by Saskatchewan (+4.5%) and New Brunswick (+2.6%). Alberta's economy also grew 2.2% in 2003. In Ontario, the economy slowed, expanding 1.3% after posting a 3.6% gain in the previous year.

Saskatchewan (+6.0 percentage points) and Alberta (+0.7 percentage points) were the only provinces where the economy picked up speed in 2003. British Columbia's economic growth was marginally lower (-0.2 percentage points) than in 2002, but the decline was modest compared to the rest of the country. Canada's gross domestic product (GDP) grew only half as fast as in 2002 (when the economy expanded 3.3%).

Domestic demand for goods and services main source of growth in BC during 2003

Consumer spending still strong

Consumer spending continued to boost overall economic performance in the province. Services, which account for the lion's share (nearly 60%) of personal spending, increased substantially (+4.5%) in 2003. Housing expenditures rose, as did spending on related items such as insurance. Consumers also purchased more services such as telecommunication and recreation. Expenditures by British Columbians travelling in the rest of Canada and internationally were up, but non-resident travel spending in the province declined.

An active housing market bolstered demand for big-ticket items such as furniture, household furnishings and appliances. However, consumer purchases of new motor vehicles fell after having a banner year in 2002, and spending on durable goods advanced just 0.9% during 2003.

[1] Unless otherwise noted, all of the figures quoted in this paper are in constant (1997, chained) dollars. The data comes from Statistics Canada, primarily from Catalogue 13-213.

Purchases of non-durable goods rose a relatively modest 1.4%. British Columbians reduced their use of energy products such as natural gas and fuel oil in the wake of hefty price increases during 2003. Rising tobacco taxes, together with anti-smoking campaigns, appear to have had a similar effect on smokers. However, spending on other non-durables such as food, beverages and health care products advanced over 2002 levels. Spending on semi-durable goods (+2.7%) was up more or less across the board, as lower prices for items such as clothing contributed to higher sales volumes.

Business investment fuels growth

Business investment advanced 8.2% in 2003, largely due to a construction boom. Spending on residential structures posted double-digit growth for the second year in a row, reflecting solid gains in new housing construction. Although spending on alterations and improvements to existing dwellings did not increase as rapidly, residents of BC continued to invest substantial sums in maintaining the stock of housing. A hot real estate market also provided a boost to the economy.

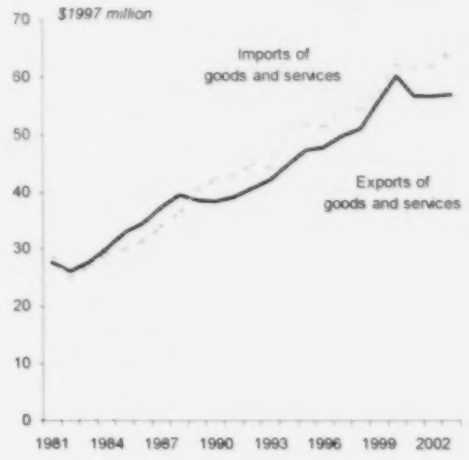
Business spending on machinery and equipment and non-residential structures bounced back after slumping in 2002. Primary industries such as mining, oil & gas extraction invested in new structures, but spending was slack in other industries. Both manufacturing and primary industries invested heavily in new machinery and equipment in 2003, possibly because a stronger Canadian dollar made these products, most of which are imported, more affordable.

Inventory levels increased in 2003, suggesting that the demand for BC products did not keep pace with production. Government spending on goods and services boosted overall output marginally, while public sector investment in fixed capital remained strong.

Overall trade deficit worsens as export markets dry up while imports rise

BC's trade deficit worsened as a stronger Canadian dollar put the brakes on international exports of BC products. The effect of the softwood lumber dispute was not as great as might have been expected, as some firms responded to the US duties on softwood lumber exports by upping production or absorbing the cost of the duties. Not all firms fared well, however. The ongoing dispute with the US, together with the effect of forest fires during the summer months, resulted in the closure of some mills in the province. Overall, softwood lumber exports advanced in 2003, as did exports of newsprint and logs. Natural gas and pulp exports were, however, weaker than in 2002.

BC's overall trade deficit worsened



BC's exports to other provinces increased 1.7% in 2003, marking the third straight year in which they have posted only modest growth. Inter-provincial exports are affected by conditions inside the province as well as in other parts of Canada. British Columbia's location on the west coast of the country means that the province is a port of entry and exit for goods coming to or from other parts of Canada, so domestic firms benefit from increased activity related to the transport, storage, wholesaling or insuring of these goods.

A soaring loonie helped boost imports, which rose 4.3% during 2003 largely because of rapid growth (+7.4%) in international imports. Business and government investment in machinery and equipment, much of which is imported into the province, contributed to this increase. Imports from other provinces were only marginally higher (+0.6%) than in 2003.

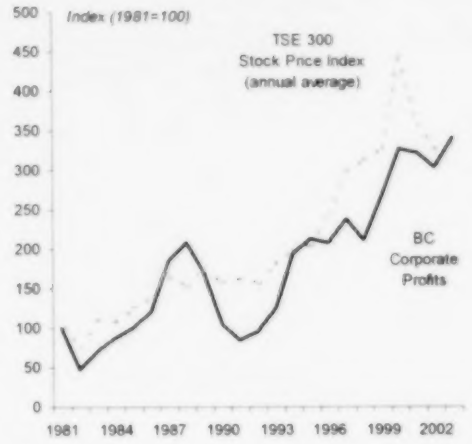
Moving toward a deficit in international trade?

The province has traditionally had a healthy international trade surplus, which has helped offset the effect of a deficit in its trade with other provinces. However, the international trade surplus has been declining in recent years, falling to its lowest level ever (less than $1 billion) in 2003. Given that the dollar is likely to remain relatively strong in the near future, at the same time that BC exporters continue to be hampered by trade disputes and embargoes on some agricultural products, it is very possible that British Columbia's international balance of trade could fall into a deficit situation in the near future. This would, in the short term, limit the province's prospects for growth, as both international and interprovincial trade would act as a drag on economic growth. Over the longer run, one might expect to see increased efficiencies as BC firms adapt and become more competitive in order to survive. This could, eventually, foster economic growth and development, but only at the cost of a possibly painful period of economic restructuring.

Labour and corporate income rises

British Columbians saw their wages, salaries and benefits expand 3.3% during 2003, as the number of jobs, particularly for full-time workers, increased. The province's unemployment rate slipped to 8.1% last year, down from an average of 8.5% in 2002. Self-employment remained an important source of job growth in 2003.

Corporate profits climb in 2003



Corporate profits rose for the first time since 2000, as businesses, particularly those in the non-financial sector, gained steam. The TSE 300 index, which measures stock prices for companies listed on the Toronto Stock Exchange, also began to pick up speed after plunging earlier in the decade. Natural resource royalties increased in 2003, but low interest rates helped keep the lid on other investment earnings in the province.

Owner-operators of unincorporated businesses posted solid gains in 2003, continuing a long-term upward trend in income. The building boom, and steady growth in services, both contributed to rising income for unincorporated businesses in the province.

The mad cow situation had only a limited effect on BC farmers

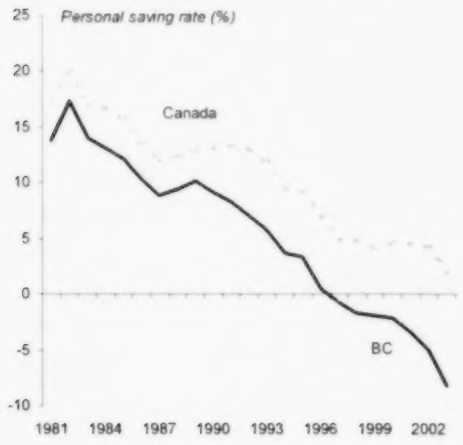
Net farm income plunged in 2003 as farmers in the province faced rising cost pressures during a time when there was little growth in cash receipts. The mad cow situation, which had a devastating effect on the cattle industry in the Prairies, was less of a problem in BC, mainly because the cattle industry in this province is relatively small, accounting for just 7% of total farm cash receipts.

Per capita income increased just enough to keep pace with inflation; after tax income fell

Personal income advanced faster than the increase in the population, and as a result per capita income rose to $27,624. However, the increase was just enough to keep pace with the overall rise in consumer prices, so BC residents saw virtually no change in real2 personal income. Per capita taxes rose, as did other transfers to government, so real after tax income declined in 2003, falling to $19,495, which was below the national average ($20,445). Residents of Alberta ($23,161) and Ontario ($21,608) had the highest after-tax incomes.

Despite the decline in real after tax income, personal expenditures continued to increase, and as a result the province's savings rate plunged to -8.2%, marking the sixth straight year in which BC residents have spent more money than they have earned. Savings rates are falling in other provinces, but remain positive.

BC's savings rate plunged in 2003



Goods sector drives economic growth for first time since 2000

Real GDP at basic prices (the measure used to assess industry performance) increased 2.4% in 2003. For the first time since 2000, goods-producing industries (which expanded about three percent) were responsible for most of the growth in the economy. This was primarily due to strong gains in construction (+8.5%) and manufacturing (+2.6%). Service industries expanded, but at a slower rate (just over two percent).

Construction industries benefited from a flurry of activity in the housing sector, as well as increased business and government investment in new structures. In manufacturing, GDP rose a solid 2.6%, boosted by strength in the forest products sector. Despite the softwood lumber dispute, forest fires during the summer, and a strike at coastal mills, both wood (+3.1%) and paper (+11.0%) manufacturers made solid gains in 2003. There were signs of improvement in high tech industries, with GDP in computer and electronic products manufacturing expanding for the first time since 2000.

BC's agriculture industry stalled, while output in fishing inched ahead. Logging activities in the province were down 2.0% in 2003, while utilities posted a 0.4% decline. Mining, oil and gas extraction contracted 1.4% in 2003, with weakness seen in both the oil and gas and mining industries.

Wholesalers of household goods, food and beverages made strong gains during 2003. Slower, but still significant, growth was seen in the clothing, lumber and building supplies component of the industry. Overall, wholesale trade expanded 7.2% during the year.

Retailers posted slower growth of 3.0% in 2003. Purveyors of clothing and household furnishings made particularly strong gains, but the automotive sector stalled during 2003, as sales of new vehicles slumped. Financial services advanced 2.2% in 2003, partly due to the effect of a boom in the housing market.

[2] Adjusted to remove the effects of inflation.

The transportation industry showed signs of stress, with overall output declining 1.3% in 2003, marking the second time in the last two years that the industry has contracted. The troubles in the airline industry, together with a strike at BC Ferries late in the fall, both posed challenges for the province's transportation sector in 2003.

Accommodation and food services expanded 1.5% largely due to strength in the food services sector. The province's accommodation industry pulled back marginally in 2003, due in part to the combined effects of a higher dollar, SARS and the war in Iraq.

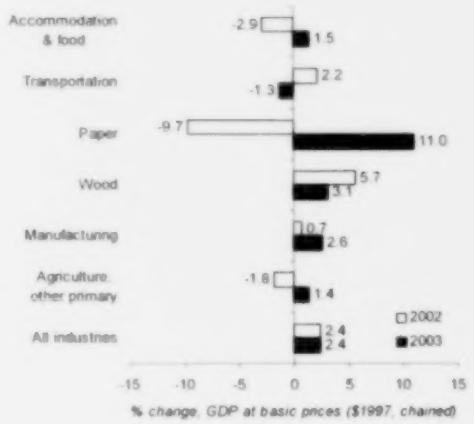
Arts and recreation services provided a boost to the economy, as did the professional and technical services industry. Health care, education and public administration industries continued to expand in 2003.

Plague, the sword, fires, trade and labour disputes hampered, but didn't halt, economic growth in 2003

SARS, the war in Iraq, and the forest fire situation dampened economic output in some sectors of the economy, but not markedly. Both accommodation and food services and the forest sector fared better in 2003 than in the previous year.

In the transportation and accommodation industries, the effects of SARS were felt early in the year, and resulted in some cancellations of tours and private travel to Canada from Asia, but the industries appear to have bounced back from the initial decline quite rapidly. Similarly, with the onset of war in Iraq, some American visitors may have chosen to stay closer to home, although the effect on the province's accommodation sector appears to have been relatively modest. Finally, despite the devastation wrought by forest fires during the summer months, accommodation properties in the province appear to have escaped relatively unscathed, with revenues increasing over 2002 levels in most regions of the province even though visitor entries from both the US and overseas declined.

Despite external shocks, some industries fared better in 2003 than in the previous year



Revenues[3] from room rentals at accommodation properties in the areas most affected by the fires (Kootenay (+0.5%) and Thompson-Okanagan (+3.8%)) rose in 2003, but at a slower rate than in the previous year. The Mainland/Southwest region of the province, however, saw revenues slump 4.7%, partly because hotel rates were reduced in order to attract clients. This reduction in costs may have helped stabilize the industry by making accommodation more affordable to travellers. Given the drop in travel from Asia, and the effects of a rising Canadian dollar, which made travel to BC less of a bargain for Americans, this decline in room rates appears to have played an important counterbalancing role in the accommodation services industry. Overall, revenues from room rentals dropped 1.3% in 2003.

Other external shocks such as the softwood lumber dispute do not appear to have hurt the economy as much as had been feared. Similarly, although labour unrest halted production at coastal sawmills and shut down the

[3] Room revenues are in current dollars

ferry system in the fall, the strikes did not last long enough to seriously slow economic growth.

British Columbia appears to have made it through 2003, a year noted for numerous economic shocks, better than had been expected. Consumer spending and business investment kept the economy on an even keel in 2003. However, the underlying fundamentals of the BC economy are still cause for concern. A high Canadian dollar will continue to negatively affect BC's trade balance as exporters struggle to improve productivity and remain competitive, while consumers, both households and businesses, increase their consumption of relatively cheaper imported goods. On the positive side, there is hope that BC businesses will continue to expand capital investment as they did in 2003, which would go a long way toward providing a foundation for successfully competing in international markets without the support of a low Canadian dollar.

Another potential structural weakness in the economy is consumer spending, which has continued to rise despite declining after-tax incomes. At some point consumers will reach the limit of their resources and will no longer be able to stimulate the economy by continually spending more (per capita) on goods and services. Savings rates in the province are already the lowest in the country, and it is unlikely that the current downward trend can persist over the longer term without negatively affecting economic growth.

Infoline

May 21, 2004

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BC at a glance . . .

POPULATION (thousands)	Jan 1/04	% change on one year ago
BC	4,168.1	1.0
Canada	31,752.8	0.9
GDP and INCOME		
(BC - at market prices)	2003	% change on one year ago
Gross Domestic Product (GDP) *($ millions)*	142,418	5.1
GDP *($ 1997 millions)*	130,914	2.2
GDP *($ 1997 per Capita)*	31,572	1.4
Personal Disposable Income *($ 1997 per Capita)*	19,495	-0.4
TRADE ($ millions, seasonally adjusted)		% change on prev. month
Manufacturing Shipments - Mar	3,329	4.6
Merchandise Exports - Mar	2,470	0.5
Retail Sales - Feb	3,524	2.4
CONSUMER PRICE INDEX		12-month avg
(all items - 1992=100)	Apr '04	% change
BC	122.4	1.6
Canada	123.9	1.8
LABOUR FORCE (thousands)		% change on
(seasonally adjusted)	Apr '04	prev. month
Labour Force - BC	2,209	-0.3
Employed - BC	2,038	-0.2
Unemployed - BC	171	-1.6
		Mar '04
Unemployment Rate - BC *(percent)*	7.7	7.9
Unemployment Rate - Canada *(percent)*	7.3	7.5
INTEREST RATES (percent)	May 19/04	May 21/03
Prime Business Rate	3.75	5.00
Conventional Mortgages - 1 year	4.55	5.35
- 5 year	6.40	6.30
US/CANADA EXCHANGE RATE	May 19/04	May 21/03
(avg. noon spot rate) Cdn $	1.3766	1.3495
US $ *(reciprocal of the closing rate)*	0.7264	0.7402
AVERAGE WEEKLY WAGE RATE		% change on
(industrial aggregate - dollars)	Apr '04	one year ago
BC	675.17	-0.8
Canada	681.16	3.2

SOURCES:

Population, Gross Domestic Product, Trade, Prices, Labour Force, Wage Rate } Statistics Canada

Interest Rates, Exchange Rates: Bank of Canada Weekly Financial Statistics

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- Exports, March 2004
- Consumer Price Index, April 2004

Next week

- Business Indicators, May 2004
- Current Statistics, May 2004

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